

ALTERNATIVE FORECASTS

DRI*WEFA has assigned a 55% probability of occurrence to its March 2002 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.2% in 2001, 1.6% in 2002, 3.8% in 2003, 3.8% in 2004, and 3.0% in 2005;
- U.S. nonfarm employment grows 0.4% in 2001, shrinks 0.4% in 2002, advances 1.5% in 2003, 2.2% in 2004, and 1.6% in 2005;
- the U.S. civilian unemployment rate peaks at 5.9% in 2002, then eases to 5.0% by 2005;
- consumer confidence contracts through next year;
- consumer inflation is 2.8% in 2001, 1.8% in 2002, then ranges between 2.6% and 2.7% thereafter;
- the federal government run small annual deficits through 2005;

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in separate directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

There is a chance the baseline scenario is too pessimistic, and the economy could recover faster than had been forecast. DRI*WEFA assumes the probability of this occurring is 20%. Three sectors hold the key to this scenario's fruition. They are exports, nonresidential construction, and consumer spending. In the *Optimistic Scenario*, these sectors pick up sooner and more vigorously than in the *Baseline Scenario*. Exports benefit from the assumption that rest-of-world growth is stronger than in the baseline. As a result, the 2005 trade deficit is about \$16 billion lower. The mild winter gives nonresidential construction a first quarter 2002 boost, which causes this measure to fall just 7.2% this year compared to the baseline's nearly 12% drop. Lastly, it assumes consumers are more willing to spend, especially on durable goods. Real spending expands a healthy 3.4% in 2002 and its durable goods component increases an even stronger 6.3%. In the *Baseline Case*, real consumer spending advances 2.7% this year and durable good spending rises 2.1%.

This scenario assumes the economic turnaround comes sooner than in the baseline, an assumption that is supported by several recent indicators. Other features of the optimistic forecast include slightly higher inflation resulting from stronger demand. Multi-factor productivity growth is about 0.1 percentage point higher than in the baseline, accounting for a higher level of GDP throughout the forecast period. Real GDP is projected to expand 2.7% in 2002, 4.3% in 2003, 3.2% in 2004, and 2.7% in 2005. In the *Baseline Scenario* it grows 1.6% in 2002, 3.8% in 2003, 3.8% in 2004, and 3.0% in 2005.

The stronger U.S. economy improves Idaho's economic outlook over the next two years. Idaho nonfarm employment should grow 0.9% this year and 2.2% in 2003. This is a slight improvement over its baseline counterpart that is expected to rise 0.7% in 2002 and 1.7% in 2003. Interestingly, the stronger U.S. economy does not prevent the Idaho goods-producing sector from suffering losses in

IDAHO ECONOMIC FORECAST
CURRENT AND ALTERNATIVE FORECASTS
APRIL 2002

| | BASELINE | | | | | OPTIMISTIC | | | | | PESSIMISTIC | | | | |
|----------------------------------|----------|--------|--------|--------|--------|------------|--------|--------|--------|--------|-------------|--------|--------|--------|--------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2001 | 2002 | 2003 | 2004 | 2005 | 2001 | 2002 | 2003 | 2004 | 2005 |
| GDP (BILLIONS) | | | | | | | | | | | | | | | |
| Current \$ | 10,206 | 10,536 | 11,181 | 11,868 | 12,508 | 10,206 | 10,654 | 11,378 | 12,045 | 12,703 | 10,206 | 10,473 | 10,791 | 11,524 | 12,204 |
| % Ch | 3.4% | 3.2% | 6.1% | 6.1% | 5.4% | 3.4% | 4.4% | 6.8% | 5.9% | 5.5% | 3.4% | 2.6% | 3.0% | 6.8% | 5.9% |
| 1996 Chain-Weighted | 9,332 | 9,484 | 9,849 | 10,219 | 10,525 | 9,332 | 9,585 | 9,993 | 10,312 | 10,593 | 9,332 | 9,434 | 9,524 | 9,994 | 10,369 |
| % Ch | 1.2% | 1.6% | 3.8% | 3.8% | 3.0% | 1.2% | 2.7% | 4.3% | 3.2% | 2.7% | 1.2% | 1.1% | 1.0% | 4.9% | 3.8% |
| PERSONAL INCOME - CURR \$ | | | | | | | | | | | | | | | |
| Idaho (Millions) | 32,435 | 33,984 | 35,998 | 38,136 | 40,314 | 32,435 | 34,105 | 36,365 | 38,565 | 40,863 | 32,435 | 33,921 | 35,220 | 37,166 | 39,231 |
| % Ch | 5.4% | 4.8% | 5.9% | 5.9% | 5.7% | 5.4% | 5.2% | 6.6% | 6.1% | 6.0% | 5.4% | 4.6% | 3.8% | 5.5% | 5.6% |
| U.S. (Billions) | 8,724 | 9,001 | 9,500 | 10,057 | 10,565 | 8,724 | 9,058 | 9,644 | 10,205 | 10,732 | 8,724 | 8,976 | 9,230 | 9,735 | 10,266 |
| % Ch | 4.9% | 3.2% | 5.5% | 5.9% | 5.1% | 4.9% | 3.8% | 6.5% | 5.8% | 5.2% | 4.9% | 2.9% | 2.8% | 5.5% | 5.5% |
| PERSONAL INCOME - 1996 \$ | | | | | | | | | | | | | | | |
| Idaho (Millions) | 29,615 | 30,646 | 31,712 | 32,792 | 33,837 | 29,615 | 30,741 | 31,957 | 33,002 | 34,036 | 29,615 | 30,595 | 31,011 | 32,115 | 33,128 |
| % Ch | 3.5% | 3.5% | 3.5% | 3.4% | 3.2% | 3.5% | 3.8% | 4.0% | 3.3% | 3.1% | 3.5% | 3.3% | 1.4% | 3.6% | 3.2% |
| U.S. (Billions) | 7,966 | 8,117 | 8,368 | 8,648 | 8,868 | 7,966 | 8,164 | 8,475 | 8,733 | 8,939 | 7,966 | 8,096 | 8,128 | 8,412 | 8,669 |
| % Ch | 3.0% | 1.9% | 3.1% | 3.3% | 2.5% | 3.0% | 2.5% | 3.8% | 3.0% | 2.4% | 3.0% | 1.6% | 0.4% | 3.5% | 3.1% |
| TOTAL NONFARM EMPLOYMENT | | | | | | | | | | | | | | | |
| Idaho (Thousands) | 569.1 | 573.0 | 582.6 | 595.1 | 607.1 | 569.1 | 574.4 | 586.8 | 598.7 | 610.0 | 569.1 | 572.4 | 574.3 | 585.6 | 598.9 |
| % Ch | 1.8% | 0.7% | 1.7% | 2.1% | 2.0% | 1.8% | 0.9% | 2.2% | 2.0% | 1.9% | 1.8% | 0.6% | 0.3% | 2.0% | 2.3% |
| U.S. (Millions) | 132.2 | 131.7 | 133.7 | 136.6 | 138.7 | 132.2 | 132.4 | 135.3 | 137.7 | 139.4 | 132.2 | 131.2 | 130.8 | 133.4 | 136.3 |
| % Ch | 0.4% | -0.4% | 1.5% | 2.2% | 1.6% | 0.4% | 0.1% | 2.1% | 1.8% | 1.3% | 0.4% | -0.7% | -0.3% | 2.0% | 2.2% |
| GOODS PRODUCING SECTOR | | | | | | | | | | | | | | | |
| Idaho (Thousands) | 115.1 | 110.9 | 111.9 | 114.1 | 116.6 | 115.1 | 111.7 | 113.6 | 115.2 | 117.2 | 115.1 | 110.5 | 109.3 | 112.4 | 116.2 |
| % Ch | -0.8% | -3.7% | 0.9% | 2.0% | 2.2% | -0.8% | -3.0% | 1.7% | 1.4% | 1.7% | -0.8% | -4.0% | -1.1% | 2.8% | 3.4% |
| U.S. (Millions) | 25.1 | 24.1 | 24.2 | 24.9 | 25.2 | 25.1 | 24.4 | 25.0 | 25.5 | 25.6 | 25.1 | 23.9 | 23.2 | 23.6 | 24.6 |
| % Ch | -2.3% | -4.2% | 0.8% | 2.5% | 1.3% | -2.3% | -2.8% | 2.4% | 1.9% | 0.3% | -2.3% | -4.7% | -2.9% | 1.6% | 4.0% |
| SERVICE PRODUCING SECTOR | | | | | | | | | | | | | | | |
| Idaho (Thousands) | 454.0 | 462.1 | 470.8 | 481.0 | 490.5 | 454.0 | 462.8 | 473.2 | 483.5 | 492.8 | 454.0 | 461.9 | 465.0 | 473.2 | 482.7 |
| % Ch | 2.4% | 1.8% | 1.9% | 2.2% | 2.0% | 2.4% | 1.9% | 2.3% | 2.2% | 1.9% | 2.4% | 1.7% | 0.7% | 1.8% | 2.1% |
| U.S. (Millions) | 107.1 | 107.7 | 109.5 | 111.8 | 113.6 | 107.1 | 108.0 | 110.3 | 112.2 | 113.9 | 107.1 | 107.3 | 107.6 | 109.8 | 111.7 |
| % Ch | 1.0% | 0.5% | 1.7% | 2.1% | 1.6% | 1.0% | 0.8% | 2.1% | 1.8% | 1.5% | 1.0% | 0.2% | 0.3% | 2.0% | 1.8% |
| SELECTED INTEREST RATES | | | | | | | | | | | | | | | |
| Federal Funds | 3.9% | 2.0% | 4.0% | 5.0% | 5.0% | 3.9% | 2.0% | 4.2% | 5.4% | 5.5% | 3.9% | 1.8% | 2.0% | 3.4% | 4.0% |
| Bank Prime | 6.9% | 5.0% | 7.0% | 8.0% | 8.0% | 6.9% | 5.0% | 7.2% | 8.4% | 8.5% | 6.9% | 4.8% | 5.0% | 6.4% | 7.0% |
| Existing Home Mortgage | 7.0% | 7.3% | 7.5% | 7.6% | 7.4% | 7.0% | 7.2% | 7.5% | 7.7% | 7.7% | 7.0% | 7.2% | 6.6% | 6.8% | 7.0% |
| INFLATION | | | | | | | | | | | | | | | |
| GDP Price Deflator | 2.2% | 1.5% | 2.2% | 2.3% | 2.3% | 2.2% | 1.6% | 2.4% | 2.6% | 2.7% | 2.2% | 1.5% | 2.1% | 1.8% | 2.1% |
| Personal Cons Deflator | 1.9% | 1.2% | 2.4% | 2.5% | 2.4% | 1.9% | 1.3% | 2.6% | 2.7% | 2.7% | 1.9% | 1.2% | 2.4% | 1.9% | 2.3% |
| Consumer Price Index | 2.8% | 1.8% | 2.6% | 2.6% | 2.7% | 2.8% | 1.8% | 2.8% | 2.9% | 2.9% | 2.8% | 1.8% | 2.6% | 2.1% | 2.5% |

Forecast Begins the FOURTH Quarter of 2001

2002, but it does reduce its severity. Idaho nonfarm employment growth rates dip beneath their baseline counterparts in the last two years of the forecast. However, thanks to the strong start in 2002 and 2003,

Idaho nonfarm employment is about 3,000 higher in 2005. Idaho real personal income displays the same pattern of stronger growth this year and next compared to the baseline and slightly lower growth in 2004 and 2005. The result is also similar. Despite slightly slower growth in 2004 and 2005, Idaho real personal income is about \$200 million higher in 2005 than in the *Baseline Case*.

PESSIMISTIC SCENARIO

One of the fears about the current expansion is it will run out of steam and the economy will retreat into another recession. In this scenario, the impacts of this type of “double-dip” recession are explored. This scenario has been assigned a 25% probability of occurrence, which is slightly more likely than the *Optimistic Recession* described above. The end of inventory liquidation has boosted real GDP growth during the first quarter of 2002. But with credit tight and demand still weak, the inventory correction does not lead to a sustained increase in production. This staggers the economy, but it is not a mortal blow. This forecast assumes the U.S. invades Iraq, and this proves to be the straw that breaks the camel’s back. Oil prices spike as market anticipate the worst. But this military action affects more than just oil prices. It sends jitters through consumers, businesses, and financial markets, resulting in curtailed spending in early 2003. Layoffs resume, causing spending to suffer.

Sensing the recovery’s fragile nature, the Federal Reserve holds the federal funds rate at 1.75% until the summer of 2003. As the global situation calms, confidence builds and both consumers and businesses resume buying. Businesses also increase their payrolls. By the end of next year, the recovery is on solid ground. Although the second trough of the “double-dip” recession is as mild as the first, it is important to remember the economy has been struggling for three years by the time the recovery is secure.

The “double-dip” recession delays the state’s economic rejuvenation. In the baseline it was assumed that Idaho nonfarm employment growth would accelerate to 1.7% in 2003 after growing a meager 0.7% in 2002. The second dip of the national recession would cut the legs out from the recovery and Idaho nonfarm employment growth would actually slow to just 0.3% next year. The blow to the goods-producing sector would be especially harsh. Its employment would shrink 4.0% in 2002, compared to the 3.7% drop in the *Baseline Case*. Likewise, Idaho real personal income growth would also decelerate this year and next year. Unfortunately, these setbacks will not be offset by stronger growth in 2004 and 2005. In the last year of the forecast, Idaho nonfarm employment is down 8,200 jobs from the baseline and real income is off about \$700 million.